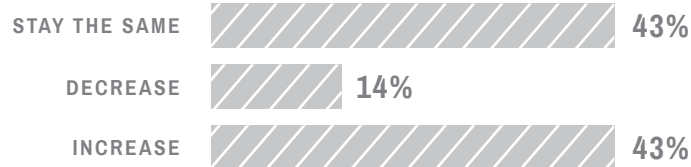


# Survey : Despite Volatility Nonprofit Healthcare Staying the Course

1

**If you currently have a dedicated allocation to private/illiquid investments, do you plan to increase, decrease, or maintain these allocations in the upcoming year?**

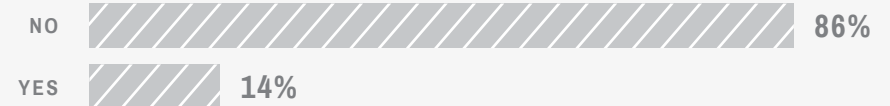


- Most NFP Healthcare Investors are maintaining or increasing allocations to illiquid investments.

- Liquidity measures such as Days Cash on Hand have improved tremendously post the 2008 crisis, giving NFP organizations the flexibility to increase illiquid investments.

2

**In light of the recent increase in equity market volatility, are you dialing back risk levels in your investment portfolio?**

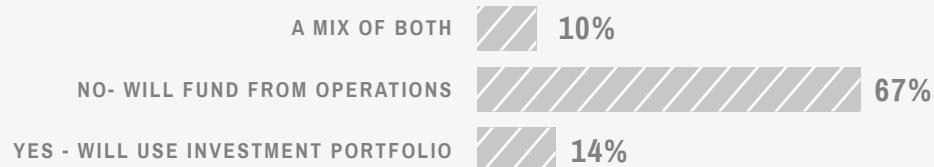


- Recent market volatility has not led to a reduction in portfolio risk levels.

- Operations are likely sustaining current cash needs while economic fundamentals have yet to signal a need to reduce portfolio risk.

3

**With respect to upcoming capital expenditures, do you expect to draw on the investment portfolio or will operational cash flows suffice for funding?**

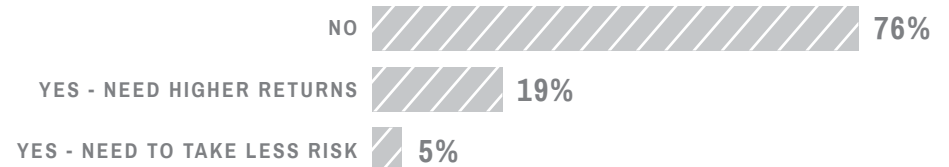


- The vast majority of NFP healthcare organizations plan to fund upcoming capital expenditures from operations rather than from the investment portfolio. At the same time, many organizations are tying capital spending to meeting budget (operating performance + portfolio performance). Prioritizing strategic needs will be key in this environment.

- Average age of plant continues to increase for NFP Healthcare organizations. Healthcare systems will also need to address technological capital needs as the industry transforms. This will likely put pressure on investment portfolios to deliver returns in the future.

4

**Are operational difficulties and declining margins forcing you to rethink your investment portfolio asset allocation?**



- Operating/EBITDA Margins have declined from their peaks in 2015. This has yet to result in a reduction of risk for most organizations, although some NFP systems are looking to generate higher returns to supplement operations

- Operational difficulties have impacted lower rated credits the most, and will likely force a reevaluation of asset allocation for those organizations.

5

**Are operational difficulties and declining margins forcing you to rethink liquidity in your investment portfolio?**

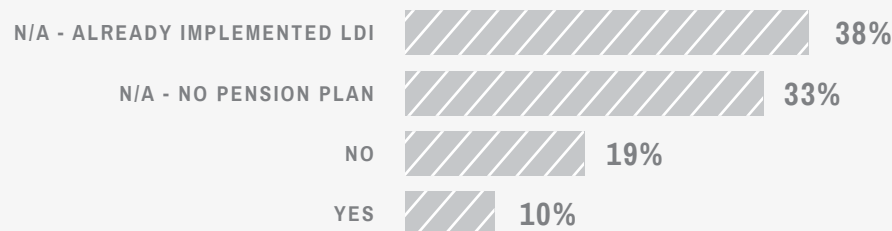


- *Very few NFP healthcare investors feel the need to increase portfolio liquidity at this time.*
- *Economic weakness and potential capital needs could cause this to change and bears watching.*

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6

**Given the recent rise in interest rates, do you believe now is the right time to derisk your pension plan and implement a glidepath approach?**



- *The average funded status for NFP healthcare organizations has steadily improved (now around 85%) as rising interest rates and strong investment returns create a rising tide that lifts all boats.*
- *Most NFP healthcare organizations have already implemented a liability driven investing approach given the recent improvement in funded status.*

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